

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EB-07 PM-04 L-03 NSC-05 CIAE-00 DODE-00

INR-07 NSAE-00 PA-01 USIA-06 PRS-01 SP-02 COME-00

FAA-00 DOTE-00 SIL-01 LAB-04 TRSE-00 OES-03 XMB-02

FRB-03 STR-04 CEA-01 CIEP-01 OMB-01 SAJ-01 /070 W

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R 261802Z JAN 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5954

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMCONSUL MUNICH

AMCONSUL BREMEN

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E.O. 11652: N/A

TAGS: EAIR, GW

SUBJECT: FRG CABINET APPROVES AEROSPACE PROGRAM

REF: A. BONN 11104, 7-11-74 B. BONN 3309, 3-1-74

1. SUMMARY: ON JAN. 14 CABINET APPROVED OF
PROGRAM PRESENTED BY AIRCRAFT INDUSTRY COORDINATOR
GRUENER. APPROVAL COMPRIMES COMMITMENT TO LONG-TERM
SUBSIDIZATION OF INDUSTRY INCLUDING CIVIL AIRLINER
SECTOR. THIS ACTION PLUS DISCUSSION WITH FRG OFFICIAL
INDICATES FRG AS WELL AS SOME OF ITS EC PARTNERS DETER-
MINED TO MAKE STRONG EFFORTS TO CAPTURE WHAT THEY CON-
SIDER FAIR SHARE OF CIVIL AIRCRAFT MARKET FROM U.S.
EVEN AT COST OF SIGNIFICANT EXPENSE TO GOVERNMENTS.
THIS GOAL IN OUR VIEW, HAS NOW BECOME AN UNEQUIVOCAL
FRG POLITICAL COMMITMENT. END SUMMARY.

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2. THE FRG IN A PRESS RELEASE ON JAN. 14 ANNOUNCED CABINET APPROVAL OF THE GOVERNMENT'S AEROSPACE PROGRAM THROUGH 1978. PROGRAM WAS DRAWN UP BY STATE SECRETARY OF THE MINISTRY OF ECONOMICS MARTIN GRUENER AS FRG COORDINATOR OF THE AEROSPACE INDUSTRY. BOTH GRUENER'S REPORT AND THE PRESS RELEASE EMPHASIZE THAT FRG WANTS COOPERATION AND FAIR COMPETITION WITH THE U.S. BUT DOES NOT WANT CONFRONTATION. EXCEPT FOR SPACE PROJECTS ALREADY UNDER WAY, HOWEVER, REPORT DOES NOT ELABORATE ON COOPERATION WITH U.S. PLAN CALLS FOR SUBSIDIES THROUGH 1978 OF DM 1.97 BILLION FOR THE AIRBUS AND DM 871 MILLION FOR THE VFW-FOKKER 614. THESE ARE DESCRIBED AS EXCEPTIONAL AND JUSTIFIED BY THE UNFAVORABLE COST MARKETING AND FINANCIAL SITUATION FOR EUROPEAN MANUFACTURERS COMPARED TO THOSE FACING U.S. MANUFACTURERS. RECOVERY OF THESE SUBSIDIES IS HOPED FOR THROUGH RATIONALIZATION OF THE INDUSTRY, AND, IN THE LONG TERM, IT IS EXPECTED THAT THE RELATIVE ADVANTAGES OF THE U.S. MANUFACTURERS IN TERMS OF LABOR AND MATERIAL COSTS WILL EVEN OUT AND MAKE THE NEED FOR SUBSIDIES LESS. THE EUROPEAN INDUSTRY AT PRESENT IS SEEN AS CONSISTING OF UNITS THAT ARE TOO SMALL WITH TOO MUCH PERSONNEL, WIDELY SCATTERED PLANTS AND INSUFFICIENT COORDINATION AND SUFFERING FROM A LACK OF SUBORDINATION OF NATIONAL TO EUROPEAN GOALS.

3. EMBOFFS ON JAN. 20 DISCUSSED AEROSPACE PLAN WITH SHOMERUS, DEPUTY ASSISTANT SECRETARY FOR INDUSTRY AFFAIRS, ECON MIN. HE DESCRIBED FIRST YEAR OF AEROSPACE INDUSTRY COORDINATOR SYSTEM AS ONE OF TRIAL AND ERROR, BUT THOUGHT ACCOMPLISHMENTS OF CONSIDERABLE SIGNIFICANCE WERE CABINET COMMITMENTS TO CONTINUING SUPPORT OF AIRBUS AND VFW-614 PROJECTS AND THE FRG'S AFFIRMATION OF A POLICY OF COOPERATION RATHER THAN CONFRONTATION WITH THE U.S. HE IN FACT, EMPHASIZED THE LATTER MUCH MORE THAN GRUENING'S REPORT DID. SHOMERUS NOTED THAT EUROPEAN MANUFACTURERS CURRENTLY SUPPLIED ONLY SIX PERCENT OF WORLD MARKET FOR CIVILIAN AIRCRAFT COMPARED TO 94 PERCENT FOR THE U.S. AT THE SAME TIME EUROPE ACCOUNTS FOR 30 PERCENT OF THE WORLD MARKET.

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HE REITERATED HIS FAVORITE THEME THAT THE EUROPEAN COUNTRIES WITH AEROSPACE INDUSTRIES OF SIGNIFICANCE, I.E., THE UK, FRANCE AND THE FRG WERE NOT WILLING TO ACCEPT THE STATUS OF CONTRACTORS TO U.S. INDUSTRY. WHILE THEY CANNOT AND SHOULD NOT ASPIRE TO 50 PERCENT OF THE WORLD MARKET OR EVEN 30 PERCENT, SHOMERUS BELIEVES THEY COULD RAISE THEIR MARKET SHARE TO BETWEEN 15.5 AND 20 PERCENT.

4. THE BEST WAY TO REACH THIS GOAL, IN HIS VIEW, IS NOT TO ENGAGE IN HEAD TO HEAD COMPETITION WITH THE U.S., BUT RATHER TO ENCOURAGE COOPERATION (BY WHICH HE CLEARLY MEANT JOINT PROJECTS) BETWEEN THE EUROPEAN INDUSTRY AND THE U.S. THE FRG'S CONTRIBUTION TO THE GOAL OF A FAIR MARKET SHARE FOR EUROPEAN MANUFACTURERS IS TO BE SUPPORT OF THE AIRBUS AND VFW-614, INCLUDING IF FEASIBLE, VARIATIONS ON THE AIRBUS, THE MOST LIKELY OF WHICH WOULD BE A SMALLER, RELATIVELY SHORT HAUL VERSION. EUROPEAN

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AEROSPACE MANUFACTURERS HAVE TO ACT JOINTLY IN VIEW OF THE ECONOMIC REALITIES OF MODERN AIRCRAFT PRODUCTION, SHOMERUS SAID, AND THE FRG INDUSTRY WILL BE PRESSURED BY THE GOVERNMENT TO SO STRUCTURE ITSELF. THE FRG SEES NO PROSPECT OF ANY WHOLLY GERMAN MAJOR AIRCRAFT PROJECT

ON THE HORIZON.

5. SHOMERUS, WHILE NOTING THE FRG COMMITMENT TO THE AIRBUS AND VFW-614 WAS ESSENTIAL IN MAINTAINING A EUROPEAN AEROSPACE INDUSTRY, INSISTED THAT GOVERNMENT SUPPORT WAS NOT OPEN-ENDED. THE PROJECTS WOULD NOT BE CONTINUED AT ANY COST FOR POLITICAL REASONS BUT WOULD EVENTUALLY HAVE TO BE JUSTIFIABLE ON ECONOMIC CRITERIA. HE WAS PREDICTABLY VAGUE AS TO WHEN IN THE DEVELOPMENT AND MARKETING PROCESS SUCH CRITERIA MIGHT BE APPLIED.

6. COMMENT: WITH ADOPTION OF GRUENER REPORT FRG HAS LIMITED OFFICIAL USE

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MOVED LONG STEP BEYOND EARLY AMBIGUOUS AND OFTEN SEEMINGLY RELUCTANT SUPPORT FOR CIVIL AIRCRAFT PROJECTS TO COMMITMENT TO WHAT SEEMS LIKELY TO BE A LONG-TERM EFFORT TO ACQUIRE A LARGER SHARE OF THE MARKET. THIS WAS APPARENT IN SHOMERUS'S REMARKS, WHICH FOR THE FIRST TIME NOTABLY LACKED THE RESERVATIONS ON THE FEASIBILITY OF GOVERNMENT FUNDING SO EVIDENT IN PAST CONVERSATIONS. HE SEEMED TO INDICATE THAT FRG PREPARED TO GO A LONG WAY, ESPECIALLY WITH THE AIRBUS. HIS REMARKS ON DEVELOPMENT OF A SMALLER SHORT RANGE VERSION OF THAT AIRCRAFT STRONGLY SUGGEST THAT THE FRG IS THINKING IN TERMS OF STRONG EUROPEAN PARTICIPATION IN THE MARKET FOR A FOLLOW-ON AIRCRAFT TO THE BOEING 727 FOR THE EUROPEAN AIRLINES. THE TONE OF OUR CONVERSATION LEFT US WITH THE IMPRESSION THAT THE FRG'S COMMITMENT TO THE MAINTENANCE OF A GERMAN AEROSPACE INDUSTRY AT NEAR ITS PRESENT SCALE HAD CRYSTALLIZED INTO A FIRM POLITICAL ISSUE HERE. ON THE OTHER HAND WE WOULD SEE NO REASON TO DOUBT SHOMERUS'S SINCERITY IN GIVING COOPERATION WITH THE U.S. HEAVY EMPHASIS.

HILLENBRAND

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